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**T.R.A. DOCKET ROOM**

D. Billye Sanders  
(615) 850-8951  
billye.sanders@wallerlaw.com

December 6, 2004

**VIA HAND DELIVERY**

Pat Miller, Chairman  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37219

Re: Petition of Chattanooga Gas Company for Approval of  
Adjustment of its Rates and Charges and Revised Tariff  
Docket Number 04-00034

Dear Chairman Miller:

Pursuant to the TRA's Notice allowing filings in support of issues raised regarding Chattanooga Gas Company's ("CGC's") Petition for Reconsideration in the above referenced Docket, enclosed are the original and 13 copies of the Affidavit of Michael Morley which is filed in support of CGC's Petition for Reconsideration.

CGC also respectfully requests that the TRA take official notice of the Form 10-Qs of AGL Resources, Inc. ("AGLR") for the quarters ended March 31, 2004, June 30, 2004 and September 30, 2004, which are on file publicly with the Securities and Exchange Commission and available on its website. In addition, CGC reiterates its request that the TRA take official Notice of the entire record in TRA Docket No. 97-00982 (Petition of Chattanooga Gas Company to Place into Effect a Revised Natural Gas Tariff), to the extent such official notice has not already been taken. (See CGC's Petition for Reconsideration footnote 5 on page 4.)

As stated in its Petition for Reconsideration, CGC's request to introduce new evidence is for good cause, because the methodology for calculating CGC's capital structure was not presented by any party to the proceeding, and therefore the data necessary to calculate the average capital structure for AGLR for the attrition

December 6, 2004

Page 2

period is not in the record<sup>1</sup>. Further, the TRA relied on information in Docket No. 97-00982 in its findings in this current docket and thus it is appropriate for the TRA to take official notice of the record in that docket.

Attached to the Affidavit is a notice to the parties filed pursuant to T.C.A. Section 4-5-313(2) and (4). Pursuant to T.C.A. Section 4-5-313(3) the TRA may admit affidavits not submitted in accordance with this Section to prevent injustice. T.C.A. Section 4-5-313(2) allows the parties 7 days after the delivery of the affidavit to inform the proponent, CGC, that it wishes to cross examine the affiant. Because the seventh day after delivery will be December 13, 2004 and oral argument is scheduled for December 13, 2004, CGC has requested that the parties notify it by Wednesday, December 8, if they wish to cross examine the affiant. If cross examination is requested by a party, the TRA should provide an opportunity for cross examination of the affiant prior to oral argument on the merits.

Sincerely,



D. Billye Sanders  
Attorney for Chattanooga Gas  
Company

DBS/hmd

cc: Parties of Record  
Archie Hickerson  
Elizabeth Wade, Esq.  
Michael Morley  
Steve Lindsey  
L. Craig Dowdy, Esq.

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<sup>1</sup> Petition for Reconsideration p 11

IN RE: PETITION OF )  
CHATTANOOGA GAS COMPANY )  
FOR APPROVAL OF ADJUSTMENT ) Docket No. 04-00034  
OF ITS RATES AND CHARGES AND )  
REVISED TARIFF )

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**NOTICE REGARDING AFFIDAVIT**

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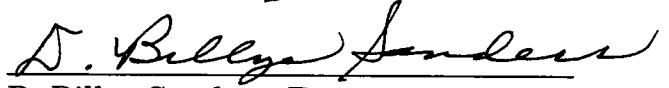
This notice is provided pursuant to T.C.A. §4-5-313 to the extent that such statute is applicable to new evidence presented in conjunction with a Petition for Reconsideration.

The accompanying affidavit of Michael Morley will be introduced as evidence in the record in Docket No. 04-00034, Petition of Chattanooga Gas Company for Approval of Adjustment of its Rates and Charges and Revised Tariff. Michael Morley will not be called to testify orally and you will not be entitled to question such affiant unless you notify D. Billye Sanders, Attorney for Chattanooga Gas Company at 511 Union Street, Suite 2700, Nashville, Tennessee 37219 that you wish to cross-examine such affiant. To be effective, your request must be delivered to D. Billye Sanders on or before December 13, 2004. Although T.C.A. § 4-5-313 allows 7 days for your response (i.e. until December 13, 2004), due to the fact that oral argument has been scheduled for December 13, 2004, CGC **respectfully requests that you let it know whether you wish to cross examine the affiant by Wednesday, Dec. 8, 2004** so that the TRA will have an opportunity prior to

December 13 to consider when it would schedule such cross-examination, if requested.

CHATTANOOGA GAS COMPANY

By:

A handwritten signature in cursive script, appearing to read "D. Billye Sanders", is written over a horizontal line.

D. Billye Sanders, Esq.

Waller Lansden Dortch & Davis  
A Professional Limited Liability  
Company

511 Union Street, Suite 2700

Nashville, TN 37219

(615) 244-6380

Its Attorney

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**IN RE:**

<b>PETITION FOR CHATTANOOGA</b>	)	
<b>GAS COMPANY FOR APPROVAL</b>	)	<b>DOCKET NO. 04-00034</b>
<b>FOR ADJUSTMENT OF ITS RATES</b>	)	
<b>AND CHARGES AND REVISED</b>	)	
<b>TARIFF</b>		

---

**AFFIDAVIT OF MICHAEL MORLEY**

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I, Michael Morley, being first duly sworn, depose and say:

1. I am a citizen and resident of Alpharetta, Georgia.
2. I am neither an infant nor incompetent and have personal knowledge of the matters discussed herein.
3. I have served as Director of Financial Accounting for AGL Services Company ("AGLSC") since January 2002.
4. I previously filed written pre-filed direct and rebuttal testimony in this docket and testified at the hearing on this matter before the Tennessee Regulatory Authority ("TRA") on August 24, 2004.
5. The purpose of my affidavit is to provide additional information regarding how I calculated Exhibit Recon-2, which was attached to Chattanooga Gas Company's ("CGC") Motion for Reconsideration filed on November 4, 2004. In addition, I will address the impact the TRA's decision on the capital structure has on CGC's overall rate of return ("ROR") and revenue requirement.

## CALCULATION OF EXHIBIT RECON-2

6. In its Order in the above-referenced docket, the TRA stated that the capital structure was based on AGLR's capital structure *and* was consistent with a prior CGC case, i.e. TRA Docket No. 97-00982 and other previous decisions of the Tennessee Public Service Commission ("TPSC"). Significantly, in Docket No. 97-00982, the TRA adopted a *projected* average capital structure of the parent for the attrition period. However, as explained in CGC's Motion for Reconsideration, the capital structure cited in the Order is not based on AGLR's projected capital structure. In fact, such evidence was not even presented at the hearing. Accordingly, we attached Exhibit Recon-2 to illustrate what AGLR's projected capital structure would be based on actual and projected information available at the time of CGC's Motion for Reconsideration.
7. I calculated AGLR's projected capital structure by using the actual capital structure of AGLR for the quarters ended June 30, 2004 and September 30, 2004 and the projected capital structure of AGLR for the quarters ended December 31, 2004, March 31, 2005 and June 30, 2005. I then calculated the average of these five capital structures to determine the projected capital structure for AGLR for the attrition period ending June 30, 2005.
8. I used AGLR's Form 10-Q filings with the United States Securities and Exchange Commission as my basis for the actual capital structure of AGLR for the quarters ended June 30, 2004 and September 30, 2004. I then made adjustments to exclude the impact of financial instruments on long-term debt and preferred stock and to exclude the impact of other comprehensive income on common equity. Other comprehensive income is related to AGLR's consolidated accrued pension liability and other items not yet reported as expense.
9. I projected the capital structure of AGLR for the quarter ended December 31, 2004 based the actual capital structure for the quarter ended September 30, 2004. I projected the capital structure for the quarter ended March 31, 2005 based on the projected capital structure for the quarter ended December 31, 2004. I projected the capital structure for the quarter ended June 30, 2005 based on the projected capital structure for the quarter ended March 31, 2005.
10. The following adjustments, by capital structure component, were made to the projected quarterly capital structures:

Short-Term Debt:

- a) Estimated cash expenditures, primarily payments of interest, long-term debt and dividends on common stock
- b) Forecasted capital expenditures and income tax payments
- c) Forecasted net income, adjusted for non-cash items such as depreciation, interest and income tax expense and investment in subsidiary
- d) Estimated working capital requirements based on estimates provided by AGLR's Treasury Department.

Long-Term Debt and Preferred Stock – Scheduled payments of debt obligations

Common Equity – Forecasted net income and payments of dividends on common stock

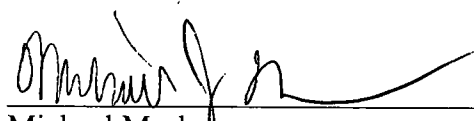
Forecasted capital expenditures and net income were based on the most recent forecast available at the time of CGC's Motion for Reconsideration. The most recent forecast used was completed August 2004. I have attached as Exhibit No. MJM AFF-1 a copy of Exhibit Recon-2 included in CGC's Motion for Reconsideration and supporting workpapers.

**IMPACT OF CAPITAL STRUCTURE ON OVERALL RATE OF RETURN**


- 11. In the Consumer Advocate and Protection Division's ("CAPD") response to CGC's Motion for Reconsideration, the CAPD states that the ROR established by the TRA in this docket is "clearly within the range of figures proposed by the two parties."
- 12. While the 7.43% ROR established by the TRA is within the range of the overall RORs proposed by CGC and the CAPD, each component of the capital structure used by the TRA to arrive at the 7.43% ROR is outside the range of figures proposed by CGC and the CAPD. I have attached as Exhibit No. MJM AFF-2 a comparison of the capital structures proposed by CGC and the CAPD and established by the TRA, which clearly illustrates this fact.

13. While the ROR is one of the most important components of rate making, an equally important component is the methodology used in deriving the ROR. In this docket, the use of the capital structure established by the TRA results in an ROR that provides for an unreasonably low revenue requirement. This unreasonably low revenue requirement is due primarily to an unreasonably low equity component of the capital structure.

This 3rd day of December 2004

  
Michael Morley

Sworn to and subscribed before me  
This 3rd day of  
December, 2004.

  
Notary Public





Chattanooga Gas Company  
Docket No 04-00034  
Exhibit No MJM AFF-1 Page 1 of 2  
Exhibit No Recon-2 from CGC's Motion for Reconsideration

**Chattanooga Gas Company**  
**TRA Docket 04-00034**

**Exhibit No. Recon-2**

**AGL Resources Average Capital Structure Twelve Months Ended June 30, 2005**  
**Percent of Total**

<b>Class of Capital</b>	<b>6/30/2004</b>	<b>9/30/2004</b>	<b>12/31/2004</b>	<b>3/31/2005</b>	<b>6/30/2005</b>	<b>Twelve Months Ended June 30, 2005 Average</b>
Short Term Debt	7 31%	2 17%	5 95%	1 21%	3 72%	4 07%
Total Long Term Debt	34 85%	43 26%	40 43%	41 91%	40 78%	40 24%
Preferred Stock	10 09%	9 44%	9 13%	9 46%	9 21%	9 47%
Common Equity	47 75%	45 13%	44 49%	47 42%	46 29%	46 22%
	100 0%	100 0%	100 0%	100 0%	100 0%	100 0%

	<b>Qtr Ended 6/30/2004</b>	<b>Qtr Ended 9/30/2004</b>	<b>Qtr Ended 12/31/2004</b>	<b>Qtr Ended 3/30/2005</b>	<b>Qtr Ended 6/30/2005</b>
Short Term Debt	\$ 161 0	\$ 51 0	\$ 144 7	\$ 28 3	\$ 89 6
Total Long Term Debt	767	1,017	983	983	983
Preferred Stock	222 b/	222 b/	222	222	222
Common Equity a/	1,051	1,061	1,082	1,112	1,116
Total	\$ 2,201 0	\$ 2,109 0	\$ 2,323 5	\$ 2,137 5	\$ 2,202 3

a/ Amounts have been adjusted to exclude "other comprehensive income" related to AGLR's consolidated accrued pension liability and other items not yet recognized as expense

b/ In the first quarter 2004 AGLR adopted FIN 46R (See Note 2 to the 10Q)

Chattanooga Gas Company  
Exhibit No. MJM AFF-1 Page 2 of 2  
Workpapers supporting Exhibit No. Recon-2 of CGC's Motion for Reconsideration

Class of Capital	Actual		Forecasted		Forecasted		Forecasted	
	Capital Structure Quarter Ended June 30, 2004	Capital Structure Quarter Ended September 30, 2004	Forecasted Adjustments	Capital Structure Quarter Ended December 31, 2004	Forecasted Adjustments	Capital Structure Quarter Ended March 31, 2004	Forecasted Adjustments	Capital Structure Quarter Ended June 30, 2004
Short Term Debt	161 0	51 0	93 7 d/	144 7	(116 4) d/	28 3	61 3 d/	89 6
Current Portion of Long Term Debt	34 0	34 0	(34 0) e/	-	-	-	-	-
Long Term Debt	733 0 a/	983 0 a/	-	983 0	-	983 0	-	983 0
Total Long Term Debt	767 0	1,017 0	(34 0)	983 0	-	983 0	-	983 0
Preferred Stock	222 0 b/	222 0 b/	-	222 0	-	222 0	-	222 0
Common Equity	1,051 0 c/	1,061 0 c/	20 8 f/	1,081 8	30 4 f/	1,112 2	3 5 f/	1,115 7
Total	2,201 0	2,351 0 g/	80 5	2,431 5 g/	(86 0)	2,345 5 g/	64 8	2,410 3 g/

a/ Long term debt is adjusted to exclude the impact of financial instruments (interest rate swaps) hedged against the long term debt. The amounts adjusted can be found in the excerpts from the Form 10-Q's included in this exhibit.

b/ Preferred stock is adjusted to exclude the impact of financial instruments (interest rate swaps) hedged against the preferred stock. The amounts adjusted can be found in the excerpts from the Form 10-Q's included in this exhibit.

Preferred stock is also adjusted to exclude the impact of FIN 46R, which was adopted by AGLR January 1, 2004 and required the deconsolidation of AGL Capital Trust I and AGL Capital Trust II ("Trusts") from the consolidated financial statements of AGLR. The impact of the deconsolidation of the Trusts is that AGLR currently includes a note payable to the Trusts of approximately \$232 million in its consolidated balance sheets. The notes payable to the Trusts represent the loan payable to fund AGLR's investments in the Trusts of \$10 million and the amounts due to the Trusts from the proceeds received from their issuances of Trust Preferred Securities of \$222 million, which represents the amounts due by the Trusts to parties unaffiliated with AGLR. Please refer to pages 13 and 20 of the Forms 10-Q's for June 30, 2004 and September 30, 2004, respectively, included in this exhibit for the full disclosure of this accounting treatment.

c/ Amounts have been adjusted to exclude "other comprehensive income" related to AGLR's consolidated accrued pension liability and other items not yet recognized as expense. The amounts adjusted can be found in the Form 10-Q's in the "Condensed Consolidated Statements of Common Shareholders' Equity" included in this exhibit.

d/ The change in short term debt is the result of the following:

Use of/(sources from) working capital  
Payments long term debt obligations, interest, income taxes and dividends on common equity  
Capital expenditures  
Net income adjusted for non-cash items such as depreciation, interest and income tax expense and investment in subsidiary

e/ The change in current portion of long term debt is the result of payments of long term debt obligations.

f/ The change in common equity is the result of net income and payments of common dividends.

g/ The "total" included in Exhibit No. Econ-2 of CGC's motion for reconsideration did not add correctly. The capital structure percentages, however, for the applicable were correct.

**Chattanooga Gas Company**  
**Exhibit No. MJM AFF-2**  
**Comparison of Capital Structures**

Line No	Capital Structure Component	Ratio		
		CGC	CAPD	TRA
1	Short-Term Debt	4 3%	12 9%	16 4%
2	Long-Term Debt	40 1%	44 6%	37 9%
3	Preferred Stock	8 7%	0 0%	10 2%
4	Common Equity	<u>46 9%</u>	<u>42 5%</u>	<u>35 5%</u>
5	<b>Total</b>	<u><b>100.0%</b></u>	<u><b>100.0%</b></u>	<u><b>100.0%</b></u>

Source - Prepared Direct Testimonies of Michael J Morley (CGC) and Daniel W McCormac (CAPD) and the Order issued by the TRA in Docket No 04-00034

10-Q 1 form10qfinal.htm FORM 10Q

Chattanooga Gas Company  
Docket No. 04-00034  
Exhibit No. MJM AFF-1  
Supporting Workpapers  
June 30, 2004 Capital Structure

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2004

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from            to

Commission File Number 1-14174

**AGL RESOURCES INC.**

(Exact name of registrant as specified in its charter)

**Georgia**

(State or other jurisdiction of incorporation  
or organization)

**58-2210952**

(I.R.S. Employer Identification No.)

**Ten Peachtree Place NE, Atlanta, Georgia 30309**

(Address and zip code of principal executive offices)

(Zip Code)

**404-584-4000**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

SFAS 133 SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities"  
 SFAS 149 SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities"

#

Chattanooga Gas Company  
 Docket No. 04-00034  
 Exhibit No. MJM AFF-1  
 Supporting Workpapers  
 June 30, 2004 Capital Structure

# Item 1. Financial Statements

## AGL RESOURCES INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<i>In millions</i>	June 30, 2004	December 31, 2003	June 30, 2003
<b>Current assets</b>			
Cash and cash equivalents	\$54	\$17	\$3
Receivables (less allowance for uncollectible accounts of \$17 million at June 30, 2004, \$2 million at December 31, 2003 and \$3 million at June 30, 2003)	414	394	276
Unbilled revenues	42	40	5
Inventories	259	210	168
Unrecovered environmental response costs – current	26	24	24
Unrecovered pipeline replacement program costs – current	24	22	18
Energy marketing and risk management assets	21	13	12
Other	10	22	6
<b>Total current assets</b>	<b>850</b>	<b>742</b>	<b>512</b>
<b>Property, plant and equipment</b>			
Property, plant and equipment	3,476	3,402	3,390
Less accumulated depreciation	1,067	1,050	1,165
<b>Property, plant and equipment-net</b>	<b>2,409</b>	<b>2,352</b>	<b>2,225</b>
<b>Deferred debits and other assets</b>			
Unrecovered pipeline replacement program costs	381	410	437
Goodwill	177	177	176
Unrecovered environmental response costs	141	155	155
Investments in Trusts	10	-	-
Unrecovered postretirement benefit costs	9	9	11
Investments in equity interests	-	101	112
Other	33	26	25
<b>Total deferred debits and other assets</b>	<b>751</b>	<b>878</b>	<b>916</b>
<b>Total assets</b>	<b>\$4,010</b>	<b>\$3,972</b>	<b>\$3,653</b>

See Notes to Condensed Consolidated Financial Statements (Unaudited)

#

Chattanooga Gas Company  
Docket No. 04-00034  
Exhibit No. MJM AFF-1  
Supporting Workpapers  
June 30, 2004 Capital Structure

**AGL RESOURCES INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**

<i>In millions</i>	June 30, 2004	December 31, 2003	June 30, 2003
<b>Current liabilities</b>			
Payables	\$535	\$403	\$387
Short-term debt	161	306	147
Accrued pipeline replacement program costs – current	90	82	67
Accrued expenses	53	54	60
Accrued environmental response costs – current	37	40	48
Current portion of long-term debt	34	77	95
Energy marketing and risk management liabilities	11	17	11
Other	95	69	71
<b>Total current liabilities</b>	<b>1,016</b>	<b>1,048</b>	<b>886</b>
<b>Accumulated deferred income taxes</b>	<b>413</b>	<b>376</b>	<b>344</b>
<b>Long-term liabilities</b>			
Accrued pipeline replacement program costs	285	323	365
Accumulated removal costs	104	102	-
Accrued postretirement benefit costs	51	51	51
Accrued pension obligations	27	39	67
Accrued environmental response costs	25	43	38
Other	13	11	9
<b>Total long-term liabilities</b>	<b>505</b>	<b>569</b>	<b>530</b>
<b>Deferred credits</b>	<b>74</b>	<b>77</b>	<b>71</b>
<b>Commitments and contingencies (Note 7)</b>			
<b>Minority interest</b>	<b>29</b>	<b>-</b>	<b>-</b>
<b>Capitalization</b>			
Senior and Medium-Term notes	728	731	697
Notes payable to Trusts	234	-	-
Subsidiaries' obligated mandatorily redeemable preferred securities	-	225	228
<b>Total long-term debt</b>	<b>962</b>	<b>956</b>	<b>925</b>
Common shareholders' equity, \$5 par value; 750,000,000 shares authorized	1,011	946	897
<b>Total capitalization</b>	<b>1,973</b>	<b>1,902</b>	<b>1,822</b>
<b>Total liabilities and capitalization</b>	<b>\$4,010</b>	<b>\$3,972</b>	<b>\$3,653</b>

See Notes to Condensed Consolidated Financial Statements (Unaudited)

#

Chattanooga Gas Company  
Docket No. 04-00034  
Exhibit No. MJM AFF-1  
Supporting Workpapers  
June 30, 2004 Capital Structure

**AGL RESOURCES INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS'**  
**EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2004**  
**(UNAUDITED)**

<i>In millions, except per share amounts</i>	Common Stock		Premium on common	Earnings	Other	Treasury	Total
	Shares	Amount	shares	reinvested	Comprehensive income	stock	
Balance as of Dec. 31, 2003	64.5	\$322	\$326	\$338	(\$40)	-	\$946
Comprehensive income:							
Net income	-	-	-	87	-	-	87
Total comprehensive income							87
Dividends on common shares (\$0.57 per share)	-	-	-	(37)	-		(37)
Benefit, stock compensation, dividend reinvestment and share purchase plans (\$28.86 weighted average price per share)	0.4	3	12	-	-	-	15
Balance as of June 30, 2004	64.9	\$325	\$338	\$388	(\$40)	\$-	\$1,011

Notes to Condensed Consolidated Financial Statements (Unaudited)

#

**AGL RESOURCES INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003**  
**(UNAUDITED)**

Chattanooga Gas Company  
Docket No. 04-00034  
Exhibit No. MJM AFF-1  
Supporting Workpapers  
June 30, 2004 Capital Structure

June 30, 2003 our comprehensive income was equal to net income.

### Earnings per Common Share

We compute basic earnings per common share by dividing our income available to common shareholders by the weighted-average number of common shares outstanding daily. Diluted earnings per common share reflect the potential reduction in earnings per common share that could occur when potential dilutive common shares are added to common shares outstanding.

We derive our potential dilutive common shares by calculating the number of shares issuable under performance units and stock options. The future issuance of shares underlying the performance units depends on the satisfaction of certain performance criteria. The future issuance of shares underlying the outstanding stock options depends upon whether the exercise prices of the stock options are less than the average market price of the common shares for the respective periods. There were no anti-dilutive items. The following table shows the calculation of our diluted shares for the three and six months ended June 30, 2004 and 2003, assuming performance units currently earned under the plan ultimately vest, and stock options currently exercisable at prices below the average market prices are exercised.

<i>In millions</i>	Three months		Six months	
	2004	2003	2004	2003
Denominator for basic earnings per share (daily weighted-average shares outstanding)	64.8	63.5	64.7	61.9
Assumed exercise of performance units and stock options	0.8	0.7	0.8	0.5
Denominator for diluted earnings per share	65.6	64.2	65.5	62.4

#

## Note 2

### Recent Accounting Pronouncements

#### FIN 46

FIN 46 requires the primary beneficiary of a variable interest entity's activities to consolidate the variable interest entity. The primary beneficiary is the party that absorbs a majority of the expected losses and/or receives a majority of the expected residual returns of the variable interest entity's activities.

In December 2003, the FASB revised FIN 46, delaying the effective dates for certain entities created before February 1, 2003, and making other amendments to clarify application of the guidance. For potential variable interest entities other than any special purpose entities, FIN 46R was required to be applied no later than the end of the first fiscal year or interim reporting period ending after March 15, 2004.

FIN 46R may be applied prospectively with a cumulative-effect adjustment as of the date it is first applied, or by restating previously issued financial statements with a cumulative-effect adjustment as of the beginning of the first year restated. FIN 46R also requires certain disclosures of an entity's relationship with variable interest entities. We adopted FIN 46R as of March 31, 2004.



**Notes payable to Trusts and Trust Preferred Securities** In June 1997 and March 2001, we established AGL Capital Trust I and AGL Capital Trust II (Trusts) to issue our Trust Preferred Securities. The Trusts are considered to be special purpose entities under FIN 46 and FIN 46R since our equity in the Trusts is not considered to be sufficient to allow the Trusts to finance their own activities and our equity investment is not considered to be at risk since the equity amounts were financed by the Trusts.

Under FIN 46 (prior to the revision in FIN 46R), we concluded that we were the primary beneficiary of the Trusts because the Trust Preferred Securities are publicly traded, widely held, and no one party would absorb a majority of any expected losses of the Trusts. In addition, our loan agreements with the Trusts include call options allowing us to capture the benefits of declining interest rates since the options enable us to call the preferred securities at par, giving us the ability to capture the majority of the residual returns in the Trusts. Accordingly, at December 31, 2003, the accounts of the Trusts were included in our consolidated financial statements.

The revisions in FIN 46R included specific guidance that instruments such as the call options included in our loan agreements with the Trusts do not constitute variable interests, and should not be considered in the determination of the primary beneficiary. As a result, as of January 1, 2004 we were required to exclude the accounts of the Trusts from our consolidated financial statements upon our adoption of FIN 46R and to classify amounts payable to the Trusts as "Notes Payable to Trusts" within capitalization in our condensed consolidated balance sheets as of June 30, 2004.

The impact of deconsolidation of the Trusts is that we have included in our condensed consolidated balance sheets at June 30, 2004, an asset of approximately \$10 million representing our investment in the Trusts, and a note payable to the Trusts totaling approximately \$232 million, which is net of an interest rate swap of \$2 million, and removed \$222 million related to the Trust Preferred Securities issued by the Trusts. The notes payable represent the loan payable to fund our investments in the Trusts of \$10 million and the amounts due to the Trusts from the proceeds received from their issuances of Trust Preferred Securities of \$222 million.

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Chattanooga Gas Company  
Docket No. 04-00034  
Exhibit No. MJM AFF-1  
Supporting Workpapers  
June 30, 2004 Capital Structure

**SouthStar** SouthStar is a joint venture formed in 1998 by our subsidiary, Georgia Natural Gas Company, Piedmont Natural Gas Company, Inc. (Piedmont) and Dynegy Inc. (Dynegy) to market natural gas and related services to retail customers, principally in Georgia. On March 11, 2003, we purchased Dynegy's 20% ownership interest in a transaction that for accounting purposes had an effective date of February 18, 2003. We currently own a non-controlling 70% financial interest in SouthStar and Piedmont owns the remaining 30%. Our 70% interest is non-controlling because all significant management decisions require approval by both owners.

On March 29, 2004 we executed an amended and restated partnership agreement with Piedmont. This amended and restated partnership agreement calls for SouthStar's future earnings starting in 2004 to be allocated 75% to our subsidiary and 25% to Piedmont. For all periods prior to February 18, 2003, SouthStar's earnings have been allocated to us based upon our ownership interests in those periods of 50%. SouthStar, which operates under the trade name Georgia Natural Gas, competes with other energy marketers, including Marketers in Georgia, to provide natural gas and related services to customers in Georgia and the Southeast.

As of December 31, 2003, we did not consolidate SouthStar in our financial statements because it did not meet the definition of a variable interest entity under FIN 46. FIN 46R added the following conditions for determining whether an entity was a variable interest entity.

- the voting rights of some investors are not proportional to their obligations to absorb the expected losses of the entity, their rights to receive the expected residual returns of the entity, or both, and

Recognized actuarial loss	2	1	1	-
Net annual cost	\$2	\$1	\$4	\$4

**Employer Contributions**

In April of 2004, we made a \$13 million contribution to our pension plan. We do not anticipate making any additional contributions in 2004.

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**Note 6****Financing**

<i>Dollars in millions</i>	Year(s) Due	Int. rate (4)	June 30, 2004	Outstanding as of: Dec. 31, 2003	June 30, 2003
<b>Short-term debt</b>					
Commercial paper (1)	2004	1.4%	\$161	\$303	\$140
Current portion of long-term debt	2004	7.6 – 7.75	34	77	95
Sequent line of credit (2)	2004	-	-	3	7
<b>Total short-term debt (3)</b>		<b>2.4%</b>	<b>\$195</b>	<b>\$383</b>	<b>\$242</b>
<b>Long-term debt - net of current portion</b>					
Medium-Term notes					
Series A	2021	9.10%	\$30	\$30	\$30
Series B	2012-2022	8.3 – 8.7	61	61	95
Series C	2015-2027	6.55 – 7.3	117	122	270
Senior Notes	2011-2013	4.45 - 7.125	525	525	300
AGL Capital interest rate swaps	2011-2013	4.57	(5)	(7)	2
<b>Total Medium-Term and Senior notes</b>			<b>\$728</b>	<b>\$731</b>	<b>\$697</b>
Notes payable to Trusts	2037-2041	8.0 – 8.17%	\$232	-	-
Trust Preferred Securities					
AGL Capital Trust I	2037	-	-	\$74	\$74
AGL Capital Trust II	2041	-	-	148	147
AGL Capital interest rate swaps	2041	2.58	2	3	7
<b>Total Notes payable to Trusts</b>			<b>234</b>	<b>-</b>	<b>-</b>
<b>Total Trust Preferred Securities</b>				<b>225</b>	<b>228</b>
<b>Total long-term</b>					<b>\$925</b>

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Chattanooga Gas Company  
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Sept 30, 2004 Capital Structure

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

**[ X ] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2004

**OR**

**[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 1-14174

**AGL RESOURCES INC.**

(Exact name of registrant as specified in its charter)

**Georgia**

(State or other jurisdiction of incorporation  
or organization)

**58-2210952**

(I.R.S. Employer Identification No.)

**Ten Peachtree Place NE, Atlanta, Georgia 30309**

(Address and zip code of principal executive offices)

**404-584-4000**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act) Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

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## Item 1. Financial Statements

**AGL RESOURCES INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**

<i>In millions</i>	<b>September 30, 2004</b>	<b>December 31, 2003</b>	<b>September 30, 2003</b>
<b>Current assets</b>			
Cash and cash equivalents	\$ 44	\$ 17	\$ 1
Receivables (less allowance for uncollectible accounts of \$12 million at September 30, 2004, \$2 million at December 31, 2003 and \$2 million at September 30, 2003)	328	394	210
Unbilled revenues	34	40	6
Inventories	340	210	254
Unrecovered environmental response costs - current	26	24	24
Unrecovered pipeline replacement program costs - current	24	22	19
Energy marketing and risk management assets	33	13	10
Other	19	22	19
<b>Total current assets</b>	<b>848</b>	<b>742</b>	<b>543</b>
<b>Property, plant and equipment</b>			
Property, plant and equipment	3,509	3,402	3,400
Less accumulated depreciation	1,072	1,050	1,166
<b>Property, plant and equipment-net</b>	<b>2,437</b>	<b>2,352</b>	<b>2,234</b>
<b>Deferred debits and other assets</b>			
Unrecovered pipeline replacement program costs	358	410	426
Goodwill	177	177	177
Unrecovered environmental response costs	147	155	163
Investments in Trusts	10	-	-
Unrecovered postretirement benefit costs	9	9	11
Investments in equity interests	-	101	115
Other	48	26	19
<b>Total deferred debits and other assets</b>	<b>749</b>	<b>878</b>	<b>911</b>
<b>Total assets</b>	<b>\$ 4,034</b>	<b>\$ 3,972</b>	<b>\$ 3,688</b>

See Notes to Condensed Consolidated Financial Statements (Unaudited)

Chattanooga Gas Company  
Docket No. 04-00034  
Exhibit No. MJM AFF-1  
Supporting Workpapers  
Sept 30, 2004 Capital Structure

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**AGL RESOURCES INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**

<i>In million, except per share amounts</i>	<b>September 30, 2004</b>	<b>December 31, 2003</b>	<b>September 30, 2003</b>
<b>Current liabilities</b>			
Payables	\$ 423	\$ 403	\$ 299
Short-term debt	51	306	127
Accrued pipeline replacement program costs - current	88	82	74
Accrued expenses	38	54	55
Accrued environmental response costs - current	25	40	54
Current portion of long-term debt	34	77	42
Energy marketing and risk management liabilities	26	17	8
Other	98	69	48
<b>Total current liabilities</b>	<b>783</b>	<b>1,048</b>	<b>707</b>
<b>Accumulated deferred income taxes</b>	<b>433</b>	<b>376</b>	<b>360</b>
<b>Long-term liabilities</b>			
Accrued pipeline replacement program costs	264	323	345
Accumulated removal costs	93	102	-
Accrued postretirement benefit costs	48	51	52
Accrued pension obligations	28	39	62
Accrued environmental response costs	36	43	40
Other	10	11	10
<b>Total long-term liabilities</b>	<b>479</b>	<b>569</b>	<b>509</b>
<b>Deferred credits</b>	<b>70</b>	<b>177</b>	<b>73</b>
<b>Commitments and contingencies (Note 8)</b>			
<b>Minority interest</b>	<b>30</b>	<b>-</b>	<b>-</b>
<b>Capitalization</b>			
Senior and Medium-Term notes	981	731	904
Notes payable to Trusts	235	-	-
Subsidiaries' obligated mandatorily redeemable preferred securities	-	225	227
<b>Total long-term debt</b>	<b>1,216</b>	<b>956</b>	<b>1,131</b>
Common shareholders' equity, \$5 par value; 750,000,000 shares authorized	1,023	946	908
<b>Total capitalization</b>	<b>2,239</b>	<b>1,902</b>	<b>2,039</b>
<b>Total liabilities and capitalization</b>	<b>\$ 4,034</b>	<b>\$ 3,972</b>	<b>\$ 3,688</b>

See Notes to Condensed Consolidated Financial Statements (Unaudited)

**AGL RESOURCES INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY**  
**(UNAUDITED)**

<i>In millions, except per share amounts</i>	<b>Common Stock</b>		<b>Premium on common shares</b>	<b>Earnings reinvested</b>	<b>Other comprehensive income</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>				
Balance as of December 31, 2003	64.5	\$ 322	\$ 326	\$ 338	(\$40)	\$ 946
Comprehensive income:						
Net income	-	-	-	107	-	107
Unrealized gain from hedging activities (net of taxes)	-	-	-	-	1	1
2003 tax adjustment in 2004 (1)	-	-	-	-	1	1
Total comprehensive income						109
Dividends on common shares (\$0.86 per share)	-	-	-	(56)	-	(56)
Benefit, stock compensation, dividend reinvestment and share purchase plans (\$29.55) weighted average price per share	0.8	5	19	-	-	24
Balance as of September 30, 2004	65.3	\$ 327	\$ 345	\$ 389	(\$38)	\$ 1,023

(1) See Note 9, Income Taxes

See Notes to Condensed Consolidated Financial Statements (Unaudited)

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## Note 3

**Recent Accounting Pronouncements**

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**FIN 46**

FIN 46 requires the primary beneficiary of a variable interest entity's activities to consolidate the variable interest entity. The primary beneficiary is the party that absorbs a majority of the expected losses and/or receives a majority of the expected residual returns of the variable interest entity's activities.

In December 2003, the FASB revised FIN 46, delaying the effective dates for certain entities created before February 1, 2003, and making other amendments to clarify application of the guidance. For potential variable interest entities other than any special purpose entities, FIN 46R was required to be applied no later than the end of the first fiscal year or interim reporting period ending after March 15, 2004.

FIN 46R may be applied prospectively with a cumulative-effect adjustment as of the date it is first applied, or by restating previously issued financial statements with a cumulative-effect adjustment as of the beginning of the first year restated. FIN 46R also requires certain disclosures of an entity's relationship with variable interest entities. Effective January 1, 2004 we adopted FIN 46R resulting in the consolidation of SouthStar's accounts in our condensed consolidated financial statements and the deconsolidation of the accounts related to our trust preferred securities.

**Notes Payable to Trusts and Trust Preferred Securities** In June 1997 and March 2001, we established AGL Capital Trust I and AGL Capital Trust II (Trusts) to issue our Trust Preferred Securities. The Trusts are considered to be special purpose entities under FIN 46 and FIN 46R since our equity in the Trusts is not considered to be sufficient to allow the Trusts to finance their own activities and our equity investment is not considered to be at risk since the equity amounts were financed by the Trusts.

Under FIN 46 (prior to the revision in FIN 46R), we concluded that we were the primary beneficiary of the Trusts because the Trust Preferred Securities are publicly traded, widely held, and no one party would absorb a majority of any expected losses of the Trusts. In addition, our loan agreements with the Trusts include call options allowing us to capture the benefits of declining interest rates since the options enable us to call the preferred securities at par, giving us the ability to capture the majority of the residual returns in the Trusts. Accordingly, at December 31, 2003, the accounts of the Trusts were included in our consolidated financial statements.

The revisions in FIN 46R included specific guidance that instruments such as the call options included in our loan agreements with the Trusts do not constitute variable interests and should not be considered in the determination of the primary beneficiary. As a result, as of January 1, 2004 we were required to exclude the accounts of the Trusts from our consolidated financial statements upon our adoption of FIN 46R and to classify amounts payable to the Trusts as "Notes payable to Trusts" within Capitalization in our condensed consolidated balance sheets as of September 30, 2004.

The impact of deconsolidation of the Trusts is that we have included in our condensed consolidated balance sheets at September 30, 2004, an asset of approximately \$10 million representing our investment in the Trusts and a note payable to the Trusts totaling approximately \$235 million, which is net of an interest rate swap of \$3 million, and removed \$222 million related to the Trust Preferred Securities issued by the Trusts. The notes payable represent the loan payable to fund our investments in the Trusts of \$10 million and the amounts due to the Trusts from the proceeds received from their issuances of Trust Preferred Securities of \$222 million.

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**Note 7**  
**Financing**

<i>Dollars in millions</i>	Year Due	Int. rate (3)	Outstanding as of:		
			Sept. 30, 2004	Dec. 31, 2003	Sept. 30, 2003
<b>Short-term debt</b>					
Commercial paper (1)	2004	1.9% \$	51 \$	303 \$	121
Current portion of long-term debt	2004	7.6 - 7.8	34	77	42
Sequent line of credit (2)	-	-	-	3	6
<b>Total short-term debt (3)</b>		<b>4.2% \$</b>	<b>85 \$</b>	<b>383 \$</b>	<b>169</b>
<b>Long-term debt - net of current portion</b>					
Medium-Term notes					
Series A	2021	9.1% \$	30 \$	30 \$	30
Series B	2012-2022	8.3 - 8.7	61	61	95
Series C	2015-2027	6.6 - 7.3	117	122	258
Senior notes	2011-2034	4.5 - 7.1	775	525	525
AGL Capital interest rate swaps	2011	5.2	(2)	(7)	(4)
<b>Total Medium-Term and Senior notes</b>			<b>\$ 981</b>	<b>\$ 731</b>	<b>\$ 904</b>
Notes payable to Trusts	2037-2041	8.0 - 8.2% \$	232 \$	- \$	-
Trust Preferred Securities					
AGL Capital Trust I	2037	-	-	74	74
AGL Capital Trust II	2041	-	-	148	148
AGL Capital interest rate swaps	2041	3.0	3	3	5
<b>Total notes payable to Trusts</b>			<b>235</b>	<b>-</b>	<b>-</b>
<b>Total Trust Preferred Securities</b>			<b>-</b>	<b>225</b>	<b>227</b>
<b>Total long-term debt (3)</b>		<b>6.2% \$</b>	<b>1,216 \$</b>	<b>956 \$</b>	<b>1,131</b>
<b>Total short-term and long-term debt (3)</b>		<b>6.1% \$</b>	<b>1,301 \$</b>	<b>1,339 \$</b>	<b>1,300</b>

(1) The daily weighted average rate was 1.3% for the nine months ended September 30, 2004

(2) The daily weighted average rate was 1.7% for the nine months ended September 30, 2004

(3) Weighted average interest rate, including interest rate swaps if applicable and excluding debt issuance and other financing related costs

**Short-term Debt**

Our short-term debt is composed of borrowings under our commercial paper program which consists of short-term unsecured promissory notes with maturities ranging from 4 to 12 days, maturities within one year of AGLC's Medium-Term notes, Sequent's line of credit and SouthStar's line of credit. The commercial paper program is supported by our Credit Facility.

On April 19, 2004, SouthStar amended its \$75 million revolving line of credit, which is used to meet seasonal working capital needs. SouthStar's line of credit is scheduled to expire on April 19, 2007 and is not guaranteed by us. Any amounts outstanding under SouthStar's line of credit would be included on our balance sheet. At September 30, 2004 there were no outstanding borrowings. Sequent also has a \$25 million line of credit, which is used solely for the posting of exchange deposits and is unconditionally guaranteed by us. On June 14, 2004,



## CERTIFICATE OF SERVICE

I hereby certify that on this 6<sup>th</sup> day of December 2004, a true and correct copy of the foregoing document was delivered by hand delivery or U.S. mail postage prepaid to the other Counsel of Record listed below.

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